

**Wamego Telephone Company, Inc.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

December 31		2014		2013
Accumulated post-retirement benefit obligation	\$	(3,409,485)	\$	(3,536,959)
Plan assets at fair value		3,049,222		2,861,276
Funded (unfunded) accumulated post-retirement benefit obligation		(360,263)		(675,683)
Unrecognized net (gain) loss		(222,931)		138,469
<b>(Accrued) Prepaid Pension Cost before Additional Minimum Liability</b>	\$	(583,194)	\$	(537,214)
<b>Amounts recognized in the balance sheet</b>				
Accumulated post-retirement benefit (liability)	\$	(360,263)	\$	(675,683)
Accumulated other comprehensive (gain) loss		(222,931)		138,469
Deferred tax asset (liability)		86,096		(53,477)
<b>Totals</b>	\$	(497,098)	\$	(590,691)
<b>Amounts recognized in accumulated other comprehensive income</b>				
Net gain (loss)	\$	222,931	\$	(138,469)
<b>Totals</b>	\$	222,931	\$	(138,469)

Other changes in plan assets and benefit obligations recognized in comprehensive income:

Years Ended December 31		2014		2013
Prior service cost	\$	-	\$	34,204
Net gain		361,400		(40,281)
<b>Totals</b>	\$	361,400	\$	(6,077)

The estimated prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0. The net gain (loss) for the plan that will be amortized from accumulated other comprehensive income (loss) is based on market conditions and is currently not known.

The stated value of the plan assets is the fair value of the assets as of December 31, 2014 and 2013, respectively. All of the assets are traded in active markets and, accordingly, can be classified as Level 1 observable inputs with respect to related accounting standards.

Years Ended December 31		2014		2013
Net pension cost	\$	45,980	\$	114,993
Benefits paid		46,289		78,938

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Weighted-average assumptions used to determine benefit obligations are as follows:

December 31	2014	2013
Discount rate	4.50%	4.50%
Rate of compensation increase	3.00%	3.00%

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

December 31	2014	2013
Discount rate	4.50%	4.50%
Expected long-term return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

The overall estimated rate of return is based on recent historical performance.

The medical inflation rate of 7.00% used to measure expected cost of benefits covered by the plan is anticipated to decline to 6.00% in the next year and over the following years as other sectors of the U.S. economy compete for the resources currently being consumed by health care. The medical inflation rate is assumed to decline gradually over the next three years until it reaches a level of 5.00% per year.

The Company's post-retirement benefit plan asset target and actual allocations by asset category for the alternate funding trust are as follows at December 31:

December 31	Target	2014	Actual 2013
Cash	2%	2%	0.0%
Equity securities	68%	67.9%	65.0%
Debt securities	22%	21.8%	25.0%
Real estate	8%	8.3%	10.0%
<b>Totals</b>		100.0%	100.0%

The Company's post-retirement benefit plan asset allocations by asset category for the 401(h) prefunding accounts are as follows at December 31:

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December 31	Target	2014	Actual 2013
Equity securities			
Domestic	24%	24.0%	23.0%
International	26%	26.0%	32.0%
Private	10%	10.0%	10.0%
Debt securities	28%	27.5%	25.0%
Cash	2%	2.5%	0.0%
Real estate	10%	10.0%	10.0%
<b>Totals</b>		100.0%	100.0%

The Company does not expect to make a prefunding contribution to the post-retirement benefit plan in 2015.

No plan assets are expected to be returned to the Company during 2015.

Based upon current data and assumptions, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 fiscal years:

Year Ending December 31,	Amount
2015	\$ 105,787
2016	110,309
2017	109,670
2018	112,595
2019-2023	784,124
<b>Total</b>	<b>\$ 1,222,485</b>

**10. OTHER COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income (loss) are as follows:

Year Ended December 31, 2014	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
<b>Other Comprehensive Income (Loss)</b>			
Unrealized holding gains (losses) on securities arising during the period	\$ 183,732	\$ (70,957)	\$ 112,775
Reclassification adjustments	(111,211)	42,950	(68,261)
Change in post-retirement benefit	361,400	(139,573)	221,827
<b>Other Comprehensive Income (Loss)</b>	<b>\$ 433,921</b>	<b>\$ (167,580)</b>	<b>\$ 266,341</b>

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Year Ended December 31, 2013	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
<b>Other Comprehensive Income (Loss)</b>			
Unrealized holding gains (losses) on securities arising during the period	\$ 252,028	\$ (97,332)	\$ 154,696
Reclassification adjustments	(21,640)	8,357	(13,283)
Change in post-retirement benefit	(6,077)	2,347	(3,730)
<b>Other Comprehensive Income (Loss)</b>	<b>\$ 224,311</b>	<b>\$ (86,628)</b>	<b>\$ 137,683</b>

The following table illustrates the components of accumulated other comprehensive income, net of tax as of December 31:

December 31	2014	2013
Unrealized gains (losses) on securities	\$ 221,807	\$ 177,293
Post-retirement benefit	136,835	(84,992)
<b>Totals</b>	<b>\$ 358,642</b>	<b>\$ 92,301</b>

**11. CREDIT RISK**

The Company grants credit to customers, substantially all of whom are local residents and businesses. Other receivables are primarily settlements from long-distance carriers that are subject to conditions in the telecommunications industry and accrued investment income. The Company has determined that no group of customers engaged in similar activities represents a material concentration of credit risk.

The Company has demand deposits at various financial institutions. Balances with certain financial institutions were in excess of the Federal insurance limitation at various times throughout the year.

The Company has investment securities held by a broker exceeding the \$500,000 Securities Investor Protection limitation. However, the broker provides supplemental protection for each client's account with a \$6,000,000 surety bond and a \$4,000,000 trust errors and omissions policy.

**12. DEFERRED COMPENSATION**

During 2014, the Company entered into deferred compensation agreements with an employee of the Company. Under the terms of the agreements, the Company is to pay the employee scheduled benefit amounts over a period of two years. The first payment will be made January 2015, and the second payment will be made January 2016.



## **Wamego Telephone Company, Inc.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **13. FUTURE OPERATIONS**

A significant portion of the Company's operating revenues are subject to FCC and Kansas Corporation Commission regulation. Both commissions continue to make regulatory changes that affect the amount and allocation of revenue among regulation telephone companies. Management has reviewed and continues to review the impact of the regulatory changes on future revenues. Management anticipates that negative effects of future revenues may be offset by future reductions in operating costs. However, the ultimate impact of the regulatory changes cannot be determined.

#### **14. SUBSEQUENT EVENT**

The Company has evaluated subsequent events through March 2, 2015, the date which the financial statements were available for issue. There have been no additional events that require disclosure.

## **SUPPLEMENTARY INFORMATION SECTION**

**Wamego Telephone Company, Inc.**  
**CONSOLIDATING BALANCE SHEET**

December 31, 2014	Wamego Telephone Company, Inc.	Wamego Tele- Communications Company, Inc.	WTC Communications, Inc.	Intercompany Eliminations	Total
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash	\$ 555,229	\$ 818,254	\$ 10,516	\$ -	\$ 1,383,999
Investment in securities available for sale	8,472,353	-	-	-	8,472,353
Due from customers	-	29,989	-	-	29,989
Other accounts receivable	(2,974,231)	590,198	551,752	2,438,509	606,228
Notes receivable	-	1,958	-	-	1,958
Materials and supplies inventory	-	81,460	16,991	-	98,451
Prepaid expenses	-	163,417	-	-	163,417
<b>Total Current Assets</b>	<b>6,053,351</b>	<b>1,685,276</b>	<b>579,259</b>	<b>2,438,509</b>	<b>10,756,395</b>
<b>Property, Plant and Equipment, at cost</b>					
General support assets	740	6,280,762	1,396,426	-	7,677,928
Central office equipment	-	7,426,545	286,188	-	7,712,733
Nonregulated equipment	-	-	1,474,108	-	1,474,108
Information origination/termination equipment	12,983	5,218	-	-	18,201
Outside plant	-	22,877,705	6,026,667	-	28,904,372
<b>Total Telephone Plant in Service</b>	<b>13,723</b>	<b>36,590,230</b>	<b>9,183,389</b>	<b>-</b>	<b>45,787,342</b>
Telephone plant under construction	-	-	185,330	-	185,330
<b>Subtotal</b>	<b>13,723</b>	<b>36,590,230</b>	<b>9,368,719</b>	<b>-</b>	<b>45,972,672</b>
Deduct accumulated depreciation	13,723	19,859,423	5,792,020	-	25,665,166
<b>Total Property, Plant and Equipment</b>	<b>\$ -</b>	<b>\$ 16,730,807</b>	<b>\$ 3,576,699</b>	<b>\$ -</b>	<b>\$ 20,307,506</b>

**Wamego Telephone Company, Inc.**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

December 31, 2014	Wamego Telephone Company, Inc.	Wamego Tele- Communications Company, Inc.	WTC Communications, Inc.	Intercompany Eliminations	Total
<b>ASSETS (Continued)</b>					
<b>Noncurrent Assets</b>					
Investment in wholly-owned subsidiaries, at equity	\$ 14,067,842	\$ -	\$ -	\$ (14,067,842)	\$ -
Investment in limited liability companies	394,626	-	-	-	394,626
Notes receivable	-	42,323	-	-	42,323
Goodwill, net	-	-	33,660	-	33,660
Other investments	52,000	18,118	-	-	70,118
Other asset	-	54,691	-	-	54,691
<b>Total Noncurrent Assets</b>	<b>14,514,468</b>	<b>115,132</b>	<b>33,660</b>	<b>(14,067,842)</b>	<b>595,418</b>
<b>TOTAL ASSETS</b>	<b>\$ 20,567,819</b>	<b>\$ 18,531,215</b>	<b>\$ 4,189,618</b>	<b>\$ (11,629,333)</b>	<b>\$ 31,659,319</b>



**Wamego Telephone Company, Inc.**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

December 31, 2014	Wamego Telephone Company, Inc.	Wamego Tele- Communications Company, Inc.	WTC Communications, Inc.	Intercompany Eliminations	Total
<b>LIABILITIES AND EQUITY</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 4,143	\$ 303,700	\$ 115,450	\$ -	\$ 423,293
Customers' deposits	-	429	-	-	429
Other accrued taxes	-	64,686	19,894	-	84,580
Income taxes payable	267,715	-	-	-	267,715
Deferred income tax liability	134,850	(77,833)	-	-	57,017
Deferred compensation - Current	-	112,500	-	-	112,500
Other current liabilities	-	(2,313,141)	-	2,438,509	125,368
<b>Total Current Liabilities</b>	<b>406,708</b>	<b>(1,909,659)</b>	<b>135,344</b>	<b>2,438,509</b>	<b>1,070,902</b>
<b>Long-Term Obligations, Less Current Maturities</b>					
Accumulated deferred income taxes (benefit)	62,009	2,206,132	448,411	-	2,716,552
Notes payable - Bank	-	7,300,000	-	-	7,300,000
Deferred compensation payable	-	112,500	-	-	112,500
Accumulated post-retirement benefits	-	360,263	-	-	360,263
<b>Total Long-Term Obligations, Less Current Maturities</b>	<b>62,009</b>	<b>9,978,895</b>	<b>448,411</b>	<b>-</b>	<b>10,489,315</b>
<b>Stockholders' Equity</b>					
Capital stock					
Common stock					
Issued	1,000,000	10,000	10,000	(20,000)	1,000,000
Additional paid-in capital	28,364	9,269,261	4,975,819	(14,245,080)	28,364
Retained earnings (deficit)	21,792,663	1,045,882	(1,379,956)	334,074	21,792,663
Accumulated other comprehensive income (loss)	358,642	136,836	-	(136,836)	358,642
<b>Subtotal</b>	<b>23,179,669</b>	<b>10,461,979</b>	<b>3,605,863</b>	<b>(14,067,842)</b>	<b>23,179,669</b>
Deduct common stock held in treasury, at cost	3,080,567	-	-	-	3,080,567
<b>Total Stockholders' Equity</b>	<b>20,099,102</b>	<b>10,461,979</b>	<b>3,605,863</b>	<b>(14,067,842)</b>	<b>20,099,102</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 20,567,819</b>	<b>\$ 18,531,215</b>	<b>\$ 4,189,618</b>	<b>\$ (11,629,333)</b>	<b>\$ 31,659,319</b>

**Wamego Telephone Company, Inc.**
**CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME**

December 31, 2014	Wamego Telephone Company, Inc.	Wamego Tele- Communications Company, Inc.	WTC Communications, Inc.	Intercompany Eliminations	Total
<b>Operating Revenues</b>					
Local network service	\$ -	\$ 1,636,120	\$ 220,571	\$ -	\$ 1,856,691
Network access service	-	6,783,568	188,435	(624,285)	6,347,718
Long distance network service	-	5,190	228,082	-	233,272
Cable television	-	-	2,311,095	-	2,311,095
Internet	-	-	1,902,084	(33,416)	1,868,668
Miscellaneous	-	299,754	390,611	(196,219)	494,146
Uncollectible operating revenue - Net (charge-offs)	-	(22,399)	-	-	(22,399)
<b>Total Operating Revenues</b>	-	8,702,233	5,240,878	(853,920)	13,089,191
<b>Operating Expenses</b>					
Plant specific operations	-	2,295,409	317,729	(229,635)	2,383,503
Plant nonspecific operations	-	462,184	1,492,542	-	1,954,726
Depreciation and amortization	-	2,332,164	837,503	-	3,169,667
Customer operations	-	643,977	1,175,603	(624,285)	1,195,295
Corporate operations	-	1,373,601	170,818	-	1,544,419
<b>Total Operating Expenses</b>	-	7,107,335	3,994,195	(853,920)	10,247,610
<b>Operating Taxes (Benefits)</b>					
Federal and state income taxes	-	120,659	149,525	-	270,184
Federal and state income taxes - Deferred	-	364,033	409,910	-	773,943
Other operating taxes	-	111,218	39,837	-	151,055
<b>Total Operating Taxes</b>	-	595,910	599,272	-	1,195,182
<b>Operating Income Before Fixed Charges</b>	\$ -	\$ 998,988	\$ 647,411	\$ -	\$ 1,646,399

**Wamego Telephone Company, Inc.**
**CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME (CONTINUED)**

December 31, 2014	Wamego Telephone Company, Inc.	Wamego Tele- Communications Company, Inc.	WTC Communications, Inc.	Intercompany Eliminations	Total
<b>Fixed Charges</b>					
Interest on debt	\$ -	\$ 118,536	\$ -	\$ -	\$ 118,536
Allowance for funds used during construction	-	(35,302)	-	-	(35,302)
<b>Total Fixed Charges</b>	-	83,234	-	-	83,234
<b>Operating Income (Loss)</b>	-	915,754	647,411	-	1,563,165
<b>Nonoperating Income (Expense)</b>					
Income from investments	2,209,767	30,797	-	(1,918,597)	321,967
Gain (loss) on disposal of telephone plant	-	376,858	(20,387)	-	356,471
Special charges	-	(36,415)	-	-	(36,415)
Federal and state income tax (expense) on nonoperating income	9,477	536	-	-	10,013
Other nonoperating income (expense)	(84,420)	4,043	-	-	(80,377)
<b>Net Nonoperating Income (Expense)</b>	2,134,824	375,819	(20,387)	(1,918,597)	571,659
<b>Net Income (Loss)</b>	2,134,824	1,291,573	627,024	(1,918,597)	2,134,824
<b>Other Comprehensive Income (Loss), Net of Tax</b>					
Unrealized gains (losses) on securities and post-retirement benefits					
Unrealized holding gains arising during the period	112,775	-	-	-	112,775
Reclassification adjustment	(68,261)	-	-	-	(68,261)
Change in post-retirement benefit	221,827	221,827	-	(221,827)	221,827
<b>Total Other Comprehensive Income (Loss), Net of Tax</b>	266,341	221,827	-	(221,827)	266,341
<b>Net Comprehensive Income (Loss)</b>	\$ 2,401,165	\$ 1,513,400	\$ 627,024	\$ (2,140,424)	\$ 2,401,165